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# Lynchburg, Virginia; General Obligation

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Credit Profile		
US\$33.8 mil GO bnds ser 2007 due 07/15/2027		
Long Term Rating	AA/Stable	New
Lynchburg		
Long Term Rating	AA/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to Lynchburg, Va.'s series 2007 \$33.8 million GO bonds. The 'AA' rating on the city's existing GO bonds was also affirmed. The outlook is stable.

The rating reflects the city's:

- Growing and diversifying local economy, with stable employers, that remains the service center for a four-county region;
- Steady tax base growth, with regular expansions of commercial and industrial base;
- Favorable financial position due to strong financial management, stable reserves, and comprehensive adopted fiscal and debt policies; and
- Low debt burden, although future capital needs are sizable.

An offsetting factor is the city's below-average wealth and income indicators.

The 2007 bonds are GOs of the city, secured by Lynchburg's full faith and credit pledge. Approximately \$17 million of bond proceeds will be used for general fund projects, the largest being in transportation and public buildings. The remainder of the issue is taking out short-term BANs that the city had previously issued for water and sewer system improvements.

Lynchburg (population 68,758) is located in central Virginia, approximately 120 miles west of Richmond (rated 'AA'), the state capitol. The 50-square-mile city has long served as the employment and retail base of the four county region in which it is situated. This broader Lynchburg MSA economy, with a population of about 228,600, continues to experience steady growth and diversification. Education and health services is the leading employment sector (23% of total), followed by manufacturing and trade, transportation and utilities, each accounting for 19% of the workforce. Within the city, employment growth and development has been driven by health services, higher education, engineering, and retail services. Centra Health Systems is the city's largest employer with over 4,400 employees. Centra owns both Virginia Baptist (317 beds) and Lynchburg General (270 beds). The latter is undergoing a \$69 million, five-story, 108 bed addition and construction on a 75,000 square-foot regional outpatient cancer treatment center. BWX Technologies, a producer of highly enriched uranium employing 2,265, and Areva NP North America, an engineering firm that specializes in nuclear power plants that employs 1,600 people, are headquartered in the city. Per capita retail sales are 80% above the U.S. average. The city's Route 29 (Wards Road) corridor remains the retail hub for the region. The growth in these sectors has contributed to steady employment expansion, ameliorating the effects of the Ericson Electronics closure in 2000 which drove up unemployment. Unemployment figures in the city have declined steadily, and were 3.6% in 2006, which was above the Commonwealth average (3%) but well below the U.S. (4.6%).

The city's tax base also continues to experience steady expansion. Total assessed values reached \$4.5 billion in fiscal 2007, or an average \$64,912 per capita. Over the past five years, average annual growth has been 5.5%; over the past 10 years 4.8%. Lynchburg is experiencing new residential growth downtown, with over 100 units being developed out of former mill buildings. The city's projection for the fiscal 2008 tax base is \$4.9 billion. Despite the gains by the local economy, wealth and income measures remain below average and constrain the rating. In 2006, median household effective buying income (EBI) was 70% of the Commonwealth and 77% of the U.S. Per capita EBI figures are slightly better but still below average. These wealth numbers may be understated somewhat, given the number of colleges (5) and students within Lynchburg.

The city's financial position remains strong due, in part, to its strong financial management policies and stable reserve levels. The city has followed fiscal and debt policies since 1999, which has contributed to a trend of stable reserve levels. Fiscal 2006 undesignated general fund balance closed with a balance of \$26 million, equal to 18% of total general fund revenues of \$145.8 million. This was \$11.4 million more than the city council adopted fund balance policy target of 10%, the fifth consecutive year in which undesignated reserves were above that level. Total unreserved fund balance in fiscal 2006 was larger at \$35.9 million or 24% of expenditures, due to a large \$10 million operating surplus. The large positive variance in 2006 was caused, in part, by a change in property tax collections of personal property taxes from one-time per year to two-times per year, accounting for \$6 million in one-time revenues in fiscal 2006. The city budgeted this amount for capital projects in fiscal 2007.

According to the city, fiscal 2007 is projected to close with a general fund undesignated fund balance of \$19 million, equal to 13% of general fund revenues (projected at \$144.7 million). The city's revenue structure is diverse. Aside from property taxes, which are the city's largest single revenue source, Lynchburg relies on local sales taxes (\$13 million in 2006), business license taxes (\$7.2 million), and meals and lodging taxes (\$10.9 million). The fiscal 2008 adopted budget totals \$151.9 million, up 8.6% over 2007. The budget includes property tax revenues up \$5.8 million or 10% over fiscal 2007's, pay-as-you-go capital projects of \$4.7 million, 12 new public safety positions, and a \$250,000 appropriation for OPEB reserve fund.

The city's overall debt burden remains at a moderate \$1,580 per capita, or 4% of market value. In fiscal 2006, debt service carrying charges were moderate at 7% of general fund expenditures. However, amortization of debt is faster than average, with 65% of principal retired within 10 years. Future capital needs are large but manageable. The city uses a six-year capital improvement plan to manage its capital needs. The 2008-2012 capital improvement plan (CIP) totals \$300.8 million. Of that amount, \$71 million is outlined for transportation needs; \$61.6 million for schools \$61.6 million; and \$100 million for sewer system improvements. For funding, the city is expecting \$99 million of these projects to be tax-supported bonded, plus \$78 million in revenue bonds. The city also faces challenges in its sewer operations, which it continues to address. Since 1989, the city has faced a state order to address a combined sewer overflow (CSO) problem. The ongoing project requires the complete separation of storm water and sewer systems. Estimated work for the remainder of the combined sewer overflow separation in 2007 dollars is \$309 million over the next 20-25 years.

## Outlook

The stable outlook reflects the expectation that the city will continue to experience solid new growth and development, maintaining its position as the employment and retail center for the region in the Commonwealth. In terms of operations, Standard & Poor's expects the city's financial operations to remain favorable and stable, with

structural budget balance and reserves consistent with adopted provisions. Debt needs are expected to remain steady, as the city addresses its infrastructure needs. The city's debt burden is expected to remain manageable and within current guidelines.

## **Financial Management Assessment: 'Strong'**

Lynchburg's fiscal and debt practices are based on a series of comprehensive policies adopted by the city in 1999 and strengthened in recent years as part of a regular review process. These management practices are considered "strong" under Standard & Poor's Financial Management Assessment (FMA). An FMA of strong indicates that practices are strong, well embedded, and likely sustainable.

- The city uses analysis of five-year historical trend analysis, state and federal estimates and data projections, and economic forecasts to annually develop its revenue and expenditure assumptions.
- Budgets are monitored through formal processes. Revenue and expenditures are tracked daily and reported to the council on a monthly basis based on adopted policy. In mid-March, the city's financial management team makes formal recommendations for budget adjustments, based on budget-to-actual results, to the city council.
- A six-year CIP serves as the basis for annual capital appropriations and debt financing requirements, a plan that is updated annually with identified funding sources
- The city has comprehensive formal debt management policies that it adheres to in planning and addressing its capital needs. These include a policy that limits the city's debt service-to-budget to 10% of budgeted general expenditures, a limit on total debt to 4.5% of full market value, principal amortization targets of 60% retirement in 10 years, and pay-as-you-go appropriations as percent of the city's annual CIP of at least 10%.
- The city has its own investment policy that is reviewed annually, with regularly quarterly reporting to the city manager and city council.
- The city recently adjusted and strengthened its long-adopted reserve policy. The policy calls for a level of general fund undesignated fund balance to be maintained at 10% of operating revenues.

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